**BEFORE THE**

**STATE CORPORATION COMMISSION**

**OF VIRGINIA**

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|---|---|---|
| **Application of** | ) | |
| | ) | |
| **Verizon Virginia Inc.** | ) | **Case No. PUC-2007-______** |
| **and** | ) | |
| **Verizon South Inc.** | ) | |
| | ) | |
| **For a Determination that Retail Services Are** | ) | |
| **Competitive and Deregulating and Detariffing** | ) | |
| **of the Same** | ) | |

**DIRECT TESTIMONY**
**OF**
**MR. WILLIAM NEWMAN**

**On Behalf of**
**Verizon Virginia Inc.**
**and**
**Verizon South Inc.**

**PUBLIC VERSION**

**January 17, 2007**

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**DIRECT TESTIMONY OF WILLIAM NEWMAN IN SUPPORT OF VERIZON'S APPLICATION FOR A DETERMINATION THAT RETAIL SERVICES ARE COMPETITIVE AND DEREGULATING AND DETARIFFING THE SAME**

## I. INTRODUCTION

**Q. WHAT IS YOUR NAME AND POSITION?**

A. My name is William M. Newman. I am Director, Consulting Services for PriMetrica, Inc.

**Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

A. I earned a Bachelor of Business Administration in Economics and a Master of Arts in Economics from Temple University. I have completed course work and preliminary examinations for a Ph.D. in Economics and Industrial Organization.

**Q. WHAT IS YOUR BUSINESS EXPERIENCE?**

A. I was employed for 17 years with The Bell Telephone Company of Pennsylvania. the American Telephone and Telegraph Company, and Bell Atlantic. During that time, I held positions in the Business Research, Service Costs, Rates and Tariffs, Product Line Management, Cost of Capital and Regulatory organizations. My areas of responsibility included demand analysis, competitive analysis, revenue forecasting, forecast integration and the preparation and presentation of testimony.

In January 1993, I resigned from Bell Atlantic to join PNR & Associates, which later was acquired by INDETEC International, Inc., which was in turn acquired by Taylor Nelson Sofres, a London-based market research company. The organization that was once PNR & Associates is now called TNS Telecoms. While employed by those companies, I managed all company activities, and during my tenure their annual revenues grew from $.5M to $10.0M. I led the development of the consumer survey, business survey, and telephone bill syndicated products, which have been purchased by existing and emerging competitors in the telecommunications industry and used by FCC and the Department of Justice in addressing telecommunications issues. I resigned as Executive Vice President from TNS Telecoms in December 2001, and worked as an independent consultant before joining PriMetrica in October, 2004.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to present the results of two surveys - one of business customers, and one of residential customers - in the Verizon operating area in Virginia. Both surveys were conducted in June 2006 by Synovate.[1] The pool of potential respondents included customers with wireline phones; therefore, the results do not take into account customers who have "cut-the-cord" and rely solely on wireless phones.

**Q. WERE THESE SURVEYS PREPARED AND CONDUCTED UNDER YOUR DIRECTION AND SUPERVISION?**

A. Yes.

**Q. PLEASE SUMMARIZE YOUR TESTIMONY REGARDING THE BUSINESS CUSTOMER SURVEY.**

A. The results of the business survey, conducted in June 2006, demonstrate that business customers of all line sizes throughout Verizon's incumbent service territory have competitive choices for all of Verizon's telecommunications services and, in fact, are exercising those choices. Businesses are using a growing number of intermodal alternatives to meet their communications needs. For example:

- 33% of business customers use digital or high capacity lines of some type, predominantly cable modem lines.
- 55.9% of businesses use wireless phone service.
- Over 85% of businesses have Internet access, and over 80% of those businesses use technologies other than dial-up.
- Moreover, over two-thirds of businesses are familiar with VoIP, and nearly 6% of the respondents use VoIP service.

[1] Synovate is a global market research company that is not affiliated with Primetrica or Verizon. I worked closely with Synovate in creating and conducting the surveys discussed herein.

Businesses have also already moved to traditional competitive local service providers (all local service providers other than Verizon). CLECs provided local telephone service to **[BEGIN CONFIDENTIAL]**

**[END CONFIDENTIAL]** of business customers with 8 or more lines. Combined, and as described below, **33.2%** of businesses use traditional local service providers ***other*** than Verizon. Finally, of those business customers remaining with Verizon, 57% have been approached by competitive providers in the past year or are aware of other local service providers.

**Q. PLEASE SUMMARIZE YOUR TESTIMONY REGARDING THE RESIDENTIAL CUSTOMER SURVEY.**

A. The results of the residential customer survey, also conducted in June 2006, demonstrate that residence customers throughout Verizon's incumbent service territory also have competitive choices for all of Verizon's telecommunications services, and are exercising those choices. The survey provides useful insights into the both the levels of actual penetration and competition across alternative platforms, and the extent to which customers are aware of their alternative choices. For example:

- Cable TV service is available to 87.4% of the households in the Verizon operating area, and 84.9% of households in the Verizon area have cable TV service and/or satellite TV service.
- Of households with cable TV service, 27.7% receive other services at a discount along with their cable TV service, such as broadband and local voice service.

- 76.2% of households subscribe to wireless phone service with 65.9% of those households having two or more wireless phones.
- 18.1% of those households consider their wireless phone to be their primary phone.
- 75.9% of households access the Internet, with 65% of households accessing the Internet from home; less than 29% of those households accessing the Internet still use dial-up.
- Over half of the households were aware of VoIP, with 4% currently using VoIP service.
- Competitive local service providers today provide local telephone service to 24.3% of the residential customers in the Verizon operating area.
- 67% of households served by Verizon have been approached by other local service providers in the previous twelve months or are aware of other local service providers.
- 95.7% of households served by Verizon's competitors are not aware of any desired services that those competitors were not able to provide.
- Verizon wirelines represent less than 30% of all in service residential voice and data connections, that is, wirelines provided by Verizon and other local service providers, high speed (or broadband) connections provided by those companies, and wireless phones.

## II. SURVEY METHODOLOGY

### A. <u>Business Survey</u>

**Q. WHAT IS THE PURPOSE OF THE BUSINESS SURVEY?**

A. The survey estimates business customer market share and the level of business customers' awareness of Verizon's competitors in Verizon's incumbent service territory in Virginia.

**Q. HOW WAS THE BUSINESS SURVEY CONDUCTED?**

A. In June 2006, Synovate conducted telephone interviews of 2260 businesses throughout the Verizon operating area. The business survey sample was drawn from the Dun & Bradstreet database, and segmented by geographic region and employee size. Survey respondents were the individuals with decision-making authority concerning telecommunications services. The respondents were asked to name the local service provider at their location. In addition, they were asked if they had been approached, within the past year, by other local service providers offering to provide local telephone service to their location. Those customers who had been approached were also asked the means by which the competitive local service providers approached them – that is, in person, by direct mail, telemarketing, etc.

**Q. WHAT IS THE SOURCE OF THE SURVEY'S SAMPLE?**

A. As noted above, the firms in the sample were drawn from the Dun & Bradstreet database, which contains information on over 13 million firms in the U.S., including location and employee size, allowing the sample to be segmented by location and employee size. Only firms located in the Verizon operating area were included in the sample, identified based on the NPA-NXX (Area Code and first three digits of the firm's telephone number) of the firm as listed in the Dun & Bradstreet database. Only firms with a Verizon NPA-NXX or that of a competitive local service provider offering local service within the Verizon operating area were included in the sample used for the survey.

**Q. PLEASE DESCRIBE THE GEOGRAPHIC SEGMENT DISTRIBUTION OF THE BUSINESS SURVEY RESPONDENTS.**

A. The Business survey has three geographic area segments. The first segment (Business Geographic Segment One) is the most dense in terms of business population, including three Core Based Statistical Areas ("CBSAs") in Virginia:[2] the Washington-Arlington-Alexandria, Virginia Beach-Norfolk-Newport News, and Richmond CBSAs. The second segment (Business Geographic Segment Two) consists of six CBSAs, including the Blacksburg, Danville, Harrisonburg, Lynchburg, Roanoke, and Winchester CBSAs. The third segment (Business Geographic Segment Three) is the least dense in terms of business population, consisting of the Charlottesville CBSA and the remaining areas of Virginia. For each of the three areas, the actual area surveyed was limited to the areas served by Verizon.

**Q. WHY WERE THREE GEOGRAPHIC SEGMENTS SELECTED?**

A. Three areas of different densities were selected to demonstrate that competition for business customers existed throughout the Verizon serving area regardless of population or business density.

**Q. PLEASE DESCRIBE THE EMPLOYEE SEGMENT DISTRIBUTION OF THE BUSINESS SURVEY RESPONDENTS.**

A. In addition to the geographic segmentation, the surveyed firms were also segmented based on number of employees. The three employee size segments are five or fewer employees at the location, 6 to 12 employees at the location, and 13 to 499 employees at the location.

**Q. WHY WERE THESE EMPLOYEE SIZE SEGMENTS SELECTED?**

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[2] "Core Based Statistical Areas" ("CBSAs"), as that term is defined by the United States Office of Management and Budget (OMB), refers collectively to both metropolitan and micropolitan statistical areas, and must contain at least one urban area of 10,000 or more population. The ten CBSAs surveyed are metropolitan statistical areas (MSAs). For ease of reference, Exhibit Misc.Newman-1 links the relevant Virginia CBSAs, counties and survey areas together.

A. The underlying goal was to survey three line-size segments: those businesses with 1-3 lines at the location, those with 4-7 lines at the location, and those with 8 or more lines at the location. The 1-3 line segment, labeled by the FCC as the small business market, is the largest of the three segments. The segmentation of those businesses with more than three lines is based on Verizon's experience with customers of this size. Although there is no precise distinction between a customer with seven lines and one with eight lines, business customers with more than seven lines are more likely to have PBX systems and digital lines such as T-1 and PRI ISDN lines.

Because the Dun & Bradstreet database did not contain line size information for each firm location, employee size at the location was used as a proxy in preparing the initial sample, based on Verizon information about the average relationship of business line size to employee size. As part of the actual survey, however, respondents were asked the number of lines they had at that location. The respondent firm was then put into the correct line size category or segment based on the response to that question. As a result, even though the sample was based in part on employee size, the survey results are based on actual access line size at the location.

Q. **HOW WAS THE ACCESS LINE INFORMATION COLLECTED?**

A. The survey first established the type of switching equipment that was at the location. The choices were POTS ("Plain Old Telephone Service" i.e., dial-tone-line), Centrex, PBX systems and Key Systems. For each type of switching equipment, the number of lines and type of lines were determined. The line types include regular business lines, DSL lines, Cable Modem lines, BRI ISDN lines, PRI ISDN lines, T-1 lines and others.

**Q. HOW WAS THE SAMPLE USED TO CONDUCT THE SURVEY DRAWN FROM THE DUN & BRADSTREET DATABASE?**

A. Separate samples were drawn for each of the three geographic segments and for each employee size segment, resulting in nine separate sample segments. Within each geographic segment and each employee size segment, all Dun & Bradstreet firm locations in Virginia located in the Verizon operating area had an equal probability of being included in the business sample. The statewide estimates of the percent of businesses served by competitive service providers for each line size category were then calculated by computing the weighted average of the percent of businesses served by competitive service providers in each of the three geographic segments. A statewide estimate of the percent of all businesses in the Verizon operating area served by competitive service providers may be calculated by computing the weighted average of the percent of businesses served by competitive service providers of all nine segments - the three line size segments in each of the three geographic segments.

**Q. HOW MANY BUSINESS SURVEYS WERE COMPLETED?**

A. Table 1 shows the number of completed business surveys for the nine segments.

**Table 1: Business Survey Sample Size**

| | 5 Employees or Less | 6 to 12 Employees | 13 to 499 Employees | Total |
|---|---|---|---|---|
| Geographic Segment One | 300 | 300 | 300 | 900 |
| Geographic Segment Two | 293 | 140 | 107 | 540 |
| Geographic Segment Three | 700 | 70 | 50 | 820 |
| Total | 1293 | 510 | 457 | 2260 |

Because of the large number of small businesses in Virginia, a sufficient sample was available to complete 300 surveys in Geographic Segments One and Two and a minimum of 600 surveys in Geographic Segment Three for business customers with less than four lines.

Based on the respondents' answers to the question of how many access lines were at the location, the respondents were placed in the appropriate line size segment as shown in Table 2.

**Table 2: Business Survey Responses by Segment**

| | Less Than 4 Lines | 4 to 7 Lines | 8 or More Lines | Total |
|---|---|---|---|---|
| Geographic Segment One | 406 | 299 | 195 | 900 |
| Geographic Segment Two | 342 | 135 | 63 | 540 |
| Geographic Segment Three | 635 | 126 | 59 | 820 |
| Total | 1383 | 560 | 317 | 2260 |

**Q. PLEASE DESCRIBE THE GEOGRAPHIC DISTRIBUTION OF THE BUSINESS SURVEY RESPONDENTS.**

A. There were survey respondents in 92 of the 114 counties/cities in Verizon's operating area. In 73 of those counties/cities, at least one respondent indicated the business used a competitive local provider for local telephone service.

There were survey respondents in 262 of Verizon's 321 wire centers. In 169 of those wire centers, at least one respondent indicated the business used a competitive local provider for local telephone service.[3]

**B. Residential Customer Survey**

**Q. WHAT IS THE PURPOSE OF THE RESIDENTIAL CUSTOMER SURVEY?**

[3] The initial intention was to have 300 completed surveys in each of the nine segments, except for the 1-3 lines segment in the Business Geographic Segment Three. Because of the large geographic area covered by that segment, the intention was to have 600 completed surveys for that segment. As the tables above demonstrate, we were able to achieve substantial success in reaching the desired numbers and appropriate geographical distribution. However, because of the limited number of firm locations with more than 5 employees in Business Geographic Segments Two and Three, the available sample was exhausted before 300 surveys could be completed. When conducting a telephone survey of businesses, a 5% completion rate is considered quite successful. A completion rate of 5% means that, on average, one of every twenty business locations that were contacted agreed to participate in the survey. In order to obtain 300 survey responses, at a completion rate of 5%, a survey would require a total sample of 6000 firm locations. From our review of the Dun & Bradstreet database, however, it was clear that there are not that many firm locations in those segments in the Verizon serving area in Virginia.

A. The survey estimates the share of residential customers that consider Verizon to be their primary provider of local service and residential customers' awareness of Verizon's competitors in the Verizon operating area in Virginia.

Q. **HOW WAS THE RESIDENTIAL CUSTOMER SURVEY CONDUCTED?**

A. In June 2006, Synovate conducted telephone interviews with 4800 households throughout the Verizon operating area. Synovate used Random Digit Dialing ("RDD"), using Genesys' Random Digit Dialing sampling program, to generate random samples for each of the sixteen residential customer geographic segments. Survey respondents were first asked to name the household's primary local service provider. Respondents were then asked if they had been approached within the past year by other local service providers offering to provide local telephone service to their household. Those customers who had been approached were also asked the means by which the competitive local service providers approached them – that is, by direct mail, telemarketing, etc.

Q. **WHAT IS THE SOURCE OF THE SAMPLE?**

A. As noted earlier, the households in the sample were obtained using the Genesys' Random Digit Dialing sampling program, which ensured that each telephone number in the sample had an equal chance of being selected.

Significantly, and consistent with the Telephone Consumer Protection Act. wireless numbers were flagged during the creation of the sample and not used for the survey. Because wireless numbers were not called, those households that have chosen to use ***only*** wireless service, and do not subscribe to traditional wireline service, were not represented. Naturally, because of the omission from the survey of households that have completely "cut the cord," the survey understates the results of households using competitive local services, and overstates the Verizon share of the market.

Also, the survey results further understate the impact of competition because the survey was conducted in June, and did not capture the responses of college students in areas like Harrisonburg and Blacksburg with high rates of wireless only and VoIP usage.

The NPA-NXX (the Area Code and the first three digits of the telephone number) allows the sample to be segmented by location. The sample only included households located in the Verizon operating area. As with the business survey, only Verizon NPA-NXXs and those of competitive local service providers offering local service within the Verizon operating area were included in preparing the sample to be used for the survey.

Q. **PLEASE DESCRIBE THE GEOGRAPHIC SEGMENT DISTRIBUTION OF THE RESIDENTIAL CUSTOMER SURVEY RESPONDENTS.**

A. The residential customer survey has sixteen geographic area segments. Ten of the sixteen segments are the ten Core CBSAs served by Verizon in Virginia. Those CBSAs are:

| | |
|---|---|
| Blacksburg | Richmond |
| Charlottesville | Roanoke |
| Danville | Virginia Beach-Norfolk-Newport News |
| Harrisonburg | Washington -Arlington-Alexandria |
| Lynchburg | Winchester |

The other six geographic area segments are made up of the remaining counties and cities in the Verizon operating area. These six areas are:

| | |
|---|---|
| Eastern Shore | Northwest |
| North | Southside |
| Northern Neck | Southwest |

The counties and cities contained in each of these six geographic areas are shown in Exhibit VA-19. For each of the sixteen areas, the actual area surveyed was limited to the areas served by Verizon.

**Q. WHY WERE THESE SIXTEEN GEOGRAPHIC SEGMENTS CHOSEN?**

A. Because there are a substantially greater number of households than firm locations in Virginia, and there is no need to segment residential customers by line size, more residential geographic segments could be surveyed than was feasible for business customers. For the residential customer survey, the goal was to garner 300 survey responses in a number of different geographic areas served by Verizon. Otherwise, the random sample process will naturally tend to select a greater number of households from the more populated areas and fewer households from the less populated areas. By segmenting the residential market. we could statistically examine each of the ten Core CBSAs served by Verizon, *and* statistically examine the entire non-CBSA region in much greater detail than had only one non-CBSA region been used.

**Q. PLEASE DESCRIBE THE GEOGRAPHIC DISTRIBUTION OF THE RESIDENTIAL SURVEY RESPONDENTS.**

A. There were survey respondents in 30 of the 31 counties/cities in non-CBSA regions of the Verizon's operating area. In 24 of those 30 counties cities. at least one respondent indicated that the household used a competitive local provider as its primary provider of local service.

There were survey respondents in 288 of Verizon's 321 wire centers. In 163 of those wire centers, at least one respondent indicated the household used a competitive local provider as its primary provider of local service.

## III. RESULTS

### A. Business Customer Survey

**Q. HOW ARE THE RESULTS OF THE BUSINESS CUSTOMER SURVEY RELEVANT TO THIS PROCEEDING?**

A. The results of the business customer survey demonstrate that business telecommunications competition in Virginia is pervasive. Business customers of all line sizes throughout the Verizon operating area have competitive choices for all of Verizon's telecommunications services and are exercising those choices. Those choices include other providers of traditional wireline service as well as other modes of communication such as wireless, Internet access and VoIP. The survey findings for the Verizon operating area as a whole include:

- **57%** of Verizon business customers have been approached by other local service providers in the past year or are aware of other local service providers.
- **33%** of business customers use digital or high capacity lines of some type, predominantly cable modem lines.
- **40.7%** of all businesses purchase service bundles. **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** of 1 to 3 line business customers purchase service bundles.
- **55.9%** of businesses use wireless phone service. Of those using wireless phone service, 16.9% use wireless as their primary means of communication for voice services, and 6% have reduced their usage of or replaced wireline phones with wireless service.

- **85.5%** of businesses have Internet access. Only 19.1% of those businesses use dial-up for Internet access, with 80% using some type of high speed Internet access, predominantly DSL and cable modems. Therefore, 68.4% of all businesses use some type of high speed Internet access. 14.1% of businesses with Internet access have reduced their usage of or replaced wireline with non-dial-up Internet access.

- **67.4%** of businesses are familiar with VoIP, and 5.9% of all respondents use VoIP service.

- For all business local service lines and trunks, **33.2%** of businesses use local service providers other than Verizon. For 1-3 line businesses. **[BEGIN CONFIDENTIAL]**

  **[END CONFIDENTIAL]** use local service providers other than Verizon.

- For regular business dial-tone lines and trunks, **26.9%** of businesses use local service providers other than Verizon. For 1-3 line businesses, **[BEGIN CONFIDENTIAL]**

  **[END CONFIDENTIAL]** use local service providers other than Verizon.

- For POTS only customers, **23.4%** of businesses use local service providers other than Verizon. For 1-3 line businesses, **[BEGIN CONFIDENTIAL]**

  **[END CONFIDENTIAL]** use local service providers other than Verizon.

Exhibit VA-20 provides these business survey results for each of the three line size segments, in each of the three geographic segments.

**B. <u>Residential Customer Survey</u>**

**Q. HOW ARE THE RESULTS OF THE RESIDENTIAL CUSTOMER SURVEY RELEVANT TO THIS PROCEEDING?**

A. The results of the residential customer survey demonstrate that residential telecommunications competition in Virginia is, like business telecommunications competition, pervasive, and that residential customers throughout the Verizon operating area have competitive choices for all of Verizon's telecommunications services and are exercising those choices. Those choices include other providers of traditional wireline service as well as other modes of communication such as wireless, Internet access and VoIP. And, as noted earlier, these results understate the market share of competitors relative to Verizon because the sample did not include the substantial number of households that use only wireless service, and not landline service. The survey findings for the Verizon operating area as a whole include:

- **24.3%** of households consider a service provider ***other*** than Verizon their primary local service provider.
- **67%** of households served by Verizon have been approached by other local service providers in the previous twelve months or were aware of other local service providers.
- Bundling of services is common. **33.8%** of households receive a discount for other services that they receive from their local service providers.
- **95.7%** of households served by providers other than Verizon are not aware of a service that could not be provided by their local service provider.
- Cable TV service is available to **87.4%** of the households in the Verizon operating area. Of the households in the Verizon operating area, 84.9% have cable TV service and/or satellite TV service
- Of households with cable TV service, **27.7%** receive other services at a discount along with their cable TV service, such as broadband and local voice service.
- **76.2%** of households subscribe to wireless phone service with 65.9% of those households having two or more wireless phones.
- Of the **45.4%** of households that purchased a wireless phone in the past year, 4% purchased the phone in lieu of purchasing a wireline phone or to replace a wireline phone.

- Of those households with wireless phone service, **18.1%** consider their wireless phone to be their primary phone. Of those households, 81.3% make most of their calls using their wireless phone, and 64.1% provide their wireless phone number more often than their wireline number.

- Of those households with more than one wireless phone, **37.2%** have someone in the household that considers his or her wireless phone to be his or her primary phone. Of those households, 86.2% have individuals in the household making most of their calls using their wireless phone, and 62.5% have individuals in the household providing their wireless phone number more often than their wireline number.

- **49.6%** of all households with wireless phone service have someone in the household that considers his or her wireless phone to be his or her primary phone

- **75.9%** of households access the Internet, with **65%** of households accessing the Internet from home. Of those households, 28.7% use dial-up, and 70.1% use some type of high speed connection.

- **55%** of households have heard of or are aware of VoIP, with 4% currently having VoIP service.

- Verizon wirelines represent less than 30% of all in service residential voice and data connections, that is, the number of wirelines provided by Verizon and other local service providers plus the number of high speed (or broadband) connections provided by those companies plus the number of wireless phones.

Exhibit VA-21 provides these residential survey results for each of the sixteen geographic segments. Exhibit VA-22 provides the Verizon wireline share of all in service residential voice and data connections for each of the sixteen geographic segments.

**Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

A. Yes.